

MONTHLY NEWS UPDATE FROM RFE

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This report contains the following information on the RFE:

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- Chukotka: Government, Telecommunications
- Kamchatka: Tourism, Gold-mining
- Magadan: Foreign trade

PRIMORSKY KRAI

Foreign Affairs

** New Zealand Trade Mission explores opportunities in agriculture*

New Zealand Trade Mission, led by the Secretary of Trade Jim Sutton, visited Vladivostok in May 2004. Jim Sutton mentioned keen interest from New Zealand to the Russian Far East. According to Sutton, New Zealand is exploring possibilities for direct investment, besides intensifying trade relations. The Vice Governor of Primorsky Krai, covering agricultural affairs, emphasized that there are many areas of potential cooperation between New Zealand and The Russian Far East, especially in agricultural sector. According to the Vice Governor, the region welcomes new Zealand investment in the agriculture and will offer favorable conditions and various tax breaks (*Source: Vostok Media, May 25, 2004*).

** Scientists from the Russian Far East and Alaska to explore the Arctic Ocean*

Scientists from the Russian Far East branch of Russia's Academy of Science, University of Alaska, and International Arctic Center of Alaska State University in Fairbanks signed a protocol on cooperation in the Pacific Sector of Arctic. Pacific Sector of Arctic includes internal and bordering waters of Alaska, USA, part of the Pacific Ocean, and a part of the Arctic Ocean. Expected cooperation will include exchanges of delegations and jointly conduct scientific research (*Source: Vostok Media, May 25, 2004*).

** Primorsky Diamond to export diamonds 15 mil USD worth by the end of 2004*

Indian diamond handling factory operating in Vladivostok announced its plans to export 15 mil USD worth of diamonds by the end of 2004. Currently, diamonds are exported to the U.S. and Belgium through Moscow. Primorsky Diamond factory started in Vladivostok in 2003 and employs 50 people. Another diamond handling factory—Choron Diamond—is



operating in Yakutsk, and its annual production volume amounts to 30 mil USD (*Source: Vostok Media, June 3, 2004*).

Transportation/Ports/Railway/Aviation

** Far Eastern Shipping Company (FESCO) announces development plans*

Evgeni Ambrosov, the General Director of FESCO, announced that FESCO is aiming at fleet modernization. Currently, an average age of a vessel climbs up to 18 years. In the next 4-5 years, FESCO is planning to almost completely rejuvenate its fleet and ensure that an average age of a vessel doesn't exceed 8-10 years. In addition, FESCO has developed a program on renovation of container fleet and already invested 6,5 mil USD for container purchases. In several weeks, the Company is expecting the first 1600 new containers to be used in export/import and coastal operations. (*Source: Vostok Media, May 25, 2004*).



Evgeny Ambrosov,
General Director, FESCO
www.fesco.ru

** Vladivostok Marine Commercial Port confirms the status of a major taxpayer*

Vladivostok Marine Commercial Port became the first Primorsky Krai company, that was registered with the special Inspection of the Tax Ministry that works with the major national taxpayers. The criteria to be considered a major national taxpayer include the cost of goods sold, the size of assets, and the volume of taxes paid. This year, Vladivostok Marine Commercial Port went through a tax check for the last 3 years, which proved the company's creditworthiness and financial stability (*Source: Konkurent, # 20, 2004*).

** FESCO opens the container line Vladivostok – Anadyr – Vladivostok*

FESCO will ship containerized cargo to Chukotka Port until the middle of October 2004. The container ship "Kapitan Gnezdilov" will carry out the freight in all types of containers. The first vessel will depart for Anadyr port on 18 June 2004. During the 4 months of navigation in Chukotka, FESCO plans to make 5 round-trips and carry out 1200 "dry" and "refrigerator" containers of 20' TEU (*Source: FESCO press release, June 15, 2004*).

** Meeting of shareholders of Primorsk Shipping Corporation (PRISCO)*

Annual Meeting of Shareholders of the Primorsk Shipping Corporation (PRISCO, Nakhodka, Primorsky Krai) was held on May 21, 2004. Net profit of PRISCO in 2003 amounted to 51.192 mil rbl. which is a 43% increase over 2002. Total profits in 2003 were 1.093 billion rbl., expenses – 1.031 billion. Balance sheet profit increased by 15.3% over the year 2002. General Meeting of Shareholders proposed to distribute profit for the year 2003 as follows: not to pay dividends, to use profit for development of auxiliary and servicing divisions. On the basis of the general voting results Meeting of Shareholders elected new Board of Directors of PRISCO consisting of 7 persons (*Source: PRISCO press release, May 24, 2004*).

** Russian Railway to invest 1.87 trln rubles in development*

OJSC Russian Railways plans to invest 1.87 trillion rubles in development in 2004-2010, according to a strategic development program approved by the company's executive board. The program suggests attracting 280 billion rubles in outside investment, including 130 billion rubles under leasing schemes for carriages and engines from Russian engineering plants. According to the company's PR department, Russian Railway is currently considering "various options for attracting investment into infrastructure development and into projects to update the carriage and engine fleet, including bond issues amounting to 12 billion rubles on the domestic market and up to \$1 billion on the external market." The company also said that it had signed cooperation agreements with a number of large Russian banks. (Source: *Interfax*, June 17, 2004).

** Russian Railway to increase cargo-carrying to China 30% in 2004*

OJSC Russian Railways plans to haul over 7 million tonnes of cargo to China this year, which would be almost 30% more than last year, according to the head of Far Eastern branch of Russian Railways, Viktor Popov. Viktor Popov participated at the 37th general session of the Pacific Economic Cooperation Council in Beijing, where announced that Russian Railways is interested in the future development of transportation arrangements with Asian-Pacific countries - China in particular - and in increasing cargo volume. (Source: *Interfax*, June 29, 2004).

** Aeroflot will increase prices on international flights*

Russia's flagship carrier Aeroflot has decided to raise ticket prices on international flights by 5% starting from July 1. The increase in ticket prices will come as a result of the company's steps to raise its fixed U.S. dollar exchange rate to 31.5 rubles/\$1. Aeroflot introduced a fixed dollar exchange rate at 30 rubles/\$1 in February in response to the dollar's decline against the ruble. The company is reported to be considering pricing its tickets in euros (Source: *Interfax*, June 28, 2004).

Telecommunications

** S&P increases Dalsvyaz corporate governance rating*

The rating agency Standard & Poor's has upgraded the corporate governance rating of OAO Dalsvyaz from 5.3 to 5.8 on a 10-point scale. The rating includes the following components: property structure and external influence - 6 (up from 5.5); shareholders' rights and relations with financially interested entities - 7 (up from 6.3); financial transparency, disclosure of information and audit - 5.5 (up from 4.7), and the structure and effectiveness of the board of directors - 4.8 (down from 4.9). The company's main shareholder is Svyazinvest, with 38.1% of charter capital. The companies Red Hand Investments Limited and Stotter Limited own 4.39% each, Livart Investments Corp - 2.54%, Hagstroemer & Qviberg Fondkommission AB - 1.9%, JP Morgan Chase Bank - 1.88%, Fenway Services Limited - 1.78% and RCL Investments Inc. - 1.62% (Source: *Interfax*, June 28, 2004).

Banking/Finance

** Far Eastern Bank received international audit*

International auditors analyzed Vladivostok-based Far Eastern Bank's financials for the year 2003 and confirmed the bank's reputation as being reliable and steadily developing. According to the bank's balance sheet, bank's assets grew by 32,3% and equaled 3 025 219 000 roubles, and bank's equity—by 29,5% and equaled 304 566 000 roubles. Currently, the bank's client base amounts to 10 300 companies and 71 500 individuals. (Source: *Zolotoi Rog*, June 22, 2004).

CHUKOTKA

Government

** Chukotka reported bankrupt by the Russia's Auditing Chamber*

The Chukotka Autonomous District, whose debt more than doubles its budget revenue, is bankrupt, the Auditing Chamber's auditor Sergei Ryabukhin reported at a news conference. According to Ryabushkin, Chukotka's current debt totals 9.3 billion rubles while the district's 2003 budget revenue added up to 3.9 billion rubles. Under the budget code, the regional debt must not exceed the revenue of the region's budget. "The district's revenue is less than one half of its state debt, so the region is for all practical purposes bankrupt," Ryabukhin said (Source: *Interfax*, May 21, 2004).

** Chukotka debt to be restructured in 2004*

The Chukotka Autonomous District will have all its debts restructured before the end of 2004, a district government official said commenting on the Russian Auditing Chamber report on the region's bankruptcy. According to Chukotka officials, calling Chukotka bankrupt is improper. The entire debt of 9.3 billion rubles accumulated before 2001. Much of it has been restructured. In the last three years, the Cabinet reduced the debt by one billion rubles. The district's government plans to have the entire debt restructured as early as this year. By January 1, 2004, the Chukotka Autonomous District had received over 14 billion rubles under investment contracts, which proved beneficial to the district's economy. Even though easy taxation has been rescinded since the beginning of the year, all the commitments made by the investors remain in force (Source: *Interfax*, May 21, 2004).

Telecommunications

** About 90% of Chukotka population has access to modern telecommunication systems*

At present, up to 90% of Chukotka population has access to telecom systems, which became possible after the launch of "Chukotnet" program. Chukotneft program is being implemented under the Federal Program "Multiservice Telecommunications Network for the Far Eastern Federal District." During the 1.5 years its development, the program made possible the creation of satellite communications network, covering 32 towns, 3 new TV and 4 radio channels, cellular service network NMT 450 standard, etc. The

system is functioning even in the extremely harsh weather conditions. The program also includes the establishment of wireless phone system in remote Chukotka locations (Source: Vostok Media, May 18, 2004).

KAMCHATKA

Tourism

* *Kamchatka Tourism Booming*

According to the announcement made at the meeting at Kamchatka Administration, tourism is the booming industry in the region. The development of tourism has been determined as a strategic goal of the regional economy. Inbound and outbound tourism constitute 85% and 15 % of all the tourist flow, respectively. In 2003 more than 8,000 foreign tourists visited Kamchatka. 32.4 % of tourists came from the U.S., 26.2%--from Japan, 10% from Germany, and 8.1%--from France. In 2003 Kamchatka tourist companies paid more than 35 mil roubles in taxes to budget and non-budget funds (Source: Vostok-Media, May 14, 2004).

Gold Mining

* *Peter Hambro Mining to acquire Kamchatka Ametistovoe Deposit*

British gold mining company Peter Hambro Mining announced that it had signed a Memorandum of Understanding to acquire a company that holds a license for Ametistovoe gold –bearing field in Kamchatka. Ametistovoe is located in Penzhinsky area of Koryak Autonomous Region, north of Kamchatka and contains a reserve base of about 1.7 mil ounces of gold and 5.3 mil ounces of silver. The company has already made an advance payment of 200,000 USD to the license holder and is expected to pay a total of 25 mil USD. By the end of 2006, the british company plans to start the construction of a gold-processing factory (Source: Peter Hambro Mining press release, June 17, 2004).

MAGADAN

Foreign Affairs

* *The U.S. remains the major foreign trade partner of Magadan*

In 2003, the U.S. was the major foreign trade partner of Magadan region. About 44 % of Magadan imports came from the U.S., the main product categories being trucks, heavy machinery and equipment, and food products, such as fruit, vegetables, and meat. Furthermore, about 88% of the regional exports fell on the U.S. and mainly included fish and seafood products. This statistics was announced at the meeting



U.S.equipment at Magadan Gold
Processing Plant

of Magadan governor Nikolai Dudov with U.S. Deputy Chief of Mission John Beyrle and U.S. Consul General in Vladivostok Pamela Spratlen (*Source: Vostok Media, June 25, 2004*).

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